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## NOTE ON THE BANK OF AMSTERDAM.

In the account of the Bank of Amsterdam, for which Adam Smith says that he is obliged to Mr. Henry Hope, there is a statement of the practice of the bank in receiving deposits of bullion, which has sometimes been found to present some difficulties. Smith (*Wealth of Nations*, Book IV. chap. iii.) says that, to facilitate the trade in bullion, the bank had adopted the plan of giving credit upon deposits of gold and silver, at the same time giving a receipt to the depositor, entitling him to take out the bullion at any time within six months, upon retransferring a sum of bank money equal to that for which he had received credit and surrendering the receipt. The person who made a deposit obtained both a bank credit and a receipt, and could not withdraw his bullion without returning both :—

The holder of a receipt cannot draw out the bullion for which it is granted without reassigning to the bank a sum of bank money equal to the price at which the bullion had been received. If he has no bank money of his own, he must purchase it of those who have it. The owner of bank money cannot draw out bullion without producing to the bank receipts for the quantity which he wants. If he has none of his own, he must buy them of those who have them.

McCulloch, in a note (p. 215 of his edition of Smith), finds this arrangement somewhat mysterious, and concludes that it was a contrivance to prevent any depositor from drawing bullion until somebody else had deposited an equal amount, and that its object was to screen the really insolvent condition of the bank. McLeod, in his *Dictionary of Political Economy*, p. 219, is unable to make anything of the arrangement, and says :—

Surely there is some extraordinary error here. How can a man, upon a deposit of £100, receive *both* a transferable receipt and also a bank credit for an equal amount? That is as much as to say that for every deposit a man received credit to *twice* the amount. This part of Adam Smith's account of the bank's transactions seems to me to be wholly unintelligible.

Neither of these authors seems to have understood that the transaction described by Adam Smith was simply an advance of money upon a pledge of bullion. The bank advanced

only upon assayed bullion or, later, upon coin, and to the extent of perhaps ninety-five per cent. of the assayed value. It gave the depositor or borrower, therefore, credit in bank for ninety-five per cent. and also a receipt, upon the surrender of which and the repayment of the advance and interest he could receive his bullion again. It was the ordinary case of a loan upon collateral, with a margin of value above the loan, where the right to redeem the collateral is a valuable right. It was necessary to repay the loan and *also* to return the pawn-ticket before the article pawned could be redeemed. Indeed, it is not easy to see how the business of advancing upon bullion could have been managed without some such arrangement for certifying the right to withdraw bullion, in addition to the mere repayment of the advance.

Adam Smith remarks that "the receipt and the bank credit seldom keep long together." The merchant who believed that his bullion would rise in the market might very well obtain an advance upon it for the greater part of its value, and then hold his receipt for the rise. His profit, when the rise came, he would secure either by redeeming his bullion and selling it or by selling the receipt itself. The form of the receipt is given by Mees, *Proeve eener Geschiedenis van het Bankwezen in Nederland*, p. 135, as follows:—

Anno ———, the ———.

N. N. has brought into bank 1,000 ducats at 60 stuyvers the piece, with the condition that he shall be held to withdraw the same within the space of six months, paying to the bank  $\frac{1}{2}$  per cent., or that otherwise, after the expiration of the aforesaid time, they shall be understood to be forfeited to the bank at the price aforesaid.

3,000 f.

M. M.

The operation is also explained by Sir James Stewart and by Oudermeulen in his *Récherches sur le Commerce*, II. i. 59 and 235, where the regulations for the assay of ingots and for advances upon them are given.

That the Bank of Amsterdam, at the time spoken of by Smith, had parted with a large amount of specie, and so had a guilty secret to conceal, there is no doubt; but the arrangements commented on by McCulloch and McLeod appear to have no relation to that fact, but, on the contrary, to be a natural mode of carrying on a legitimate branch of business.

D.